

Unpopular decisions, yet necessary. That seems to be the *leitmotif* of 2012 and not just in Italy. This refrain is deeply linked to the statement... *the EU wants it!* As if the EU were a separated body, totally detached from the life and policy choices of Member States, a sort of scapegoat for any problem afflicting us, first of all the economic ones. A very easy and self-reassuring explanation indeed, that relieves our consciences from any responsibility; nonetheless, this is not the way things go, and to make ourselves aware of this only requires to lift the veil of emotionality (typical of the media, among others) that leads us to those hasty

conclusions. It takes then the determination and the lucidity of our guest, Lorenzo Bini Smaghi, to dissipate the fog around functions and role of the EU Institutions, especially technocratic ones, such as the European Central Bank of whose Executive Board he has been a member for five years. A particularly interesting point is the analysis of the Community versus the intergovernmental method – the first one more efficient, thanks to the majority principle on which it relies, the latter less incisive, since negotiations might lead to watered-down compromises. Needless to say, the current situation requires swift and effective actions but we wonder if

the European method might aggravate the conflict between citizens and Institutions by not taking national peculiarities adequately into account. There is no easy answer to such questions. But one thing is sure: in replying Bini Smaghi does not hide behind diplomatic words. He neatly places responsibilities and proposes solutions. Maybe too neatly for the Byzantine approach which is typical of our cultural environment. Let us think about it. Can we make at least this little effort?

Mariella Palazzolo

Telos is a member of the FIPRA network

BINI SMAGHI

IS IT ALL THE EU'S FAULT?

“Member States that wish to avoid being imposed the reform Agenda by the markets or EU Institutions they resort to, should take swift initiative and implement it before it is too late. The so-called supervisory role performed by technocrats occurs only when democratic decision-making processes fail to remove the hurdles hampering economic growth.”

Telos: The dialectical tension between democratic decision-making processes and the supervisory role of technocrats, especially in the economic and financial field, is a controversial issue which is often exploited for purely nationalistic purposes. Who really holds the key of the agenda of structural reforms in Europe?

Lorenzo Bini Smaghi: It is very convenient to present reforms as imposed by the EU, thus shifting the burden of unpopularity to someone else. It is indeed National Authorities, Parliaments and Governments, that are in charge of structural reforms. The EU Institutions can just advice and compare policies implemented in different Member States to identify best practices. However, when Member States are unable to refinance themselves in markets, as it is now the case of Greece, Portugal and Ireland, the aid granted by the rest of the EU is conditional on the implementation of measures to restore and modernise the economy, including structural reforms. Member States that wish to avoid being imposed the reform Agenda by the markets or EU Institutions they resort to, should take swift initiative and implement reforms before it is too late. The so-called supervisory role performed by technocrats occurs only when democratic decision-making processes fail to remove the hurdles hampering economic growth.

The ECB is an Institution you know very well. According to the view spread by the media in some of the most critical moments of the crisis, the Italian Member of the Executive Board represents Italy's national interests, the German one stands for Germany and so on. Is that correct?

Every time I was introduced in Italy as our representative at the ECB I had to make clear that the members of the Executive Board do not represent their own countries. It would be against the statute, which in turn safeguards the independence of the Institution. The ECB is a federal body in which every single member of the Executive Board (six) and of the Governing Council (23), from the Luxembourgish to the German one, has only one vote and must act in the interest of the Eurozone as a whole. Should each member represent his own country's interests, bigger Member States



Lorenzo Bini Smaghi, CEO of Snam Rete Gas and Professor at the Harvard Weatherhead Center for International Affairs, served as a Member of the Executive Board of the European Central Bank (ECB) from June 2005 to November 2011. Prior to that, he was an economist at the Research Department of the Bank of Italy, where he also held the charge of Head of the Exchange Rate and International Trade Division. In 1998 he was Head of the Analysis and Policy Division of the European Monetary Institute in Frankfurt. From 1998 to 2005 he was Director General for International Financial Relations at the Italian Ministry of Economy and Finance. Lorenzo Bini Smaghi is also President of the Fondazione Palazzo Strozzi in Florence and a member of the Advisory Board of the Paolo Baffi Center on Central Banking and Financial Regulation at the Bocconi University in Milan. Among his publications: *The Euro paradox. Lights and shadows ten years later* (2008) and the prophetic *Open Issues in European Central Banking* (2000) where, together with Daniel Gros, he analysed strengths and weaknesses of the Eurosystem. Born in Florence, Bini Smaghi is married with two children.

would be underrepresented. It is in any case disappointing that the knowledge of EU Institutions is so poor in Italy given their importance for our citizens' lives.

Recent speeches by Merkel and Monti show the common will to shape a new institutional framework for economic governance, based on the Commission, the Council acting by majority and the Parliament as the democratic pillar. In light of your experience in the EU Institutions, how do you think the institutional framework can be improved to allow the EU to promote policies for growth and cohesion, in the interest of all Member States?

The recent crisis showed that federal Institutions – such as the ECB – are successful in delivering effective responses because they can act by majority. On the contrary, intergovernmental Institutions, such as the European Council, act by consensus, which is difficult to achieve. In times of crisis, swift decisions are required to restore the financial markets' trust: therefore, what we need is more decision-making processes by majority. In any case, this issue concerns not only the EU and its Institutions. What is still missing at the national level is the awareness that being part of the Euro entails sharing sovereignty in a much wider field than just monetary policy, including all financial matters and any issue related to the sustainability of economic growth. If one Member State is in trouble because of its failing policies, then all the other Member States are at risk. It's astonishing how Member States react proudly to the requests for budget recovery programmes and structural reforms made in exchange for financial aid. As if unconditional aid were due. It should be acknowledged that EU Institutions can and should play an increasingly important role in decision-making processes of Member States. It should also be acknowledged that EU Institutions are participated by representatives of Member States, who are in charge of carrying out monitoring and decision-making processes that have an impact on other Member States. If mistakes are made, such as tolerating the fiscal indiscipline of Greece for too long, the blame is to be put not only on Greece and the EU Institutions, but on all Eurozone Members.

Let us talk about Italy. A fair balance of austerity and growth seems to be necessary to provide the country with a perspective of growth and stability. However, the factors that have undermined Italy's competitiveness, such as excessive public spending, tax burden and territorial imbalances are still unsolved issues. In your view, how could the national decision-makers foster a virtuous circle?

There's still a lot left to do, because Italy has lost competitiveness over the last decade and it has not started to regain it yet. Italy has to become a more attractive environment for international investors, instead of discouraging them. The Agenda is well known. It is contained in the commitments that Italian Governments have taken with their partners in the framework of their national reform programmes year after year. Fulfilling those commitments, that have often remained dead letter, is a necessary step. But a change of mentality is also required, at all levels, to allow our country to be increasingly open to international competition. For instance every time a foreign entrepreneur shows interest in investing in Italy, someone will say (even on eminent newspapers) that we are underselling our companies and that urgent measures are needed to protect Italian products. Also, whenever any privilege is called into question, someone will hold the view that civilization itself is under attack, as if countries where that privilege does not exist were uncivilised. The most urgent reform to implement is to counter the narrow-mindedness of the Italian ruling class, i.e. its unwillingness to accept confronting itself with the rest of the world, since that is the main obstacle hampering the country's competitiveness in the global economic environment.